

September 12, 2002

MEMORANDUM

TO: Finance, Administrative and Human Resources Officers
All State Agencies

FROM: Richard T. Lowe, Director
Financial Operations Division
Office of Financial Management

SUBJECT: **Payments / Accounting Related to 2002 Early Out Retirement**

The purpose of this letter is to advise agencies of the policy for processing accrued leave payoffs and related accounting transactions for employees separating State employment under provisions of the 2002 Early Out Retirement program.

Legal Basis for Accrued Leave Payoffs

Public Act 93 of 2002, an act to amend the State Employees Retirement Act (1943 PA 240), sets forth specific provisions for the timing and type of accrued leave payoffs due to members retiring under the 2002 program. Accrued annual leave will be paid as a lump sum on or after October 1, 2002. Accrued sick leave will be paid in 60 consecutive equal monthly installments beginning on or after October 1, 2002.

Implementation of Payoff Requirements

The HRMN Service Centers have coordinated with the Office of Retirement Services a plan to centrally process all accrued leave payoffs to employees retiring under the 2002 program. All member information required to process accrued leave payoffs will be maintained in and processed by the HRMN system.

Payoffs for compensatory time, deferred hours and longevity will also be paid at the same time as payoffs of accrued annual leave. The HRMN service centers will process payoff transactions for annual leave, sick leave, deferred hours, and longevity. Compensatory time transactions will not be processed centrally because of the varied collective bargaining agreements and related provisions for accumulating compensatory time. Instead, agency Human Resources staff is required to process the necessary transactions to payoff compensatory time.

The following table sets forth the dates on which payoffs will be paid:

Payment Dates		
Type of Leave Payoff	Retirement Effective Date October 1, 2002 or prior	Retirement Effective Date <u>on</u> November 1, 2002
Annual Leave, Deferred Hours, Longevity, and Compensatory Time (1)	October 24, 2002	December 5, 2002
One-Time Sick Leave payoff (gross payoff less than \$600)	November 7, 2002	December 19, 2002
First monthly payment of Sick Leave payoff (gross payoffs \$600 or more) (2)	November 7, 2002	December 19, 2002
Remaining monthly payments for Sick Leave - paid on first paycheck of every month, beginning...	December 5, 2002	January 2, 2003

- (1) Agency Human Resource offices should enter compensatory time transactions by October 10th (Retirement Effective Date 10/1/02 or prior) and November 23rd (Retirement Effective Date 11/1/02) to meet the respective pay date deadlines.
- (2) For administrative efficiency, members will receive a one-time payment for accrued sick leave if the gross amount is less than \$600. All other sick leave payments will be paid in 60 consecutive equal monthly installments.

Further, except for monthly sick leave over the 60-month period, Human Resources offices are responsible to prepare for and process all payoff transactions for members retiring under this program with a retirement effective date after November 1, 2002 (i.e., members approved for an extended separation date).

Accounting for Payoffs

Agencies should not record accounts payable for payoffs to early out retirees who separated employment in fiscal year 2002 regardless of the retirement effective date. Recognition as fiscal year 2003 expenditure is appropriate because the enabling legislation states that leave payoffs are due on or after October 1, 2002. This is an exception to the expenditure recognition policy for termination payments detailed in the *Administrative Guide to State Government*, procedure 1210.27.

If payoffs have already been processed in fiscal year 2002, agencies should reclassify the expenditure as a prepaid expenditure in fiscal year 2002. The Financial Reporting and Accounting Manual, Chapter 11, Section 3 provides additional guidance on entries needed to classify prepaid expenditures.

OFM is currently testing the use of specific pay codes for processing these payoffs. Upon completion of testing later this month, instructions will be provided to agencies on how to establish labor distribution preferences in HRMN and DCDS utilizing the new pay codes.

If you have questions concerning payment processing, please contact Mike Krouse at (517) 373-2866. Questions regarding accounting policy should be directed to Lisa Fath at (517) 335-1617.

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